



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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March 20, 2001

TO: Audit Committee

FROM: Patrick T. McMahon *PTM*
Assistant Auditor-Controller

SUBJECT: DHS' TRANSFER OF EXCESS COMMUNITY HEALTH PLAN FUNDS

As requested, we reviewed DHS' transfer of \$13 million in excess reserves from the Community Health Plan's (CHP) trust account to help fund the DHS Austerity Program. As part of the 1115 Waiver extension, DHS committed to save \$21 million in Austerity Program savings during FY 2000-01. DHS plans to use the CHP funds to help achieve the Austerity Program savings. DHS made the transfer on December 14, 2000.

Section 1300.76 of the California Code of Regulations requires health plans (such as CHP) to maintain a minimum amount of reserves or tangible net equity (TNE). CHP reports their actual and required TNE (along with other financial information) to the State quarterly. We reviewed CHP's actual and required TNE reported in their December 31, 2000 quarterly report and noted that after the \$13 million transfer, CHP's net equity still exceeds the minimum required TNE by approximately \$4.6 million. Additionally, based on discussions with County Counsel, there are no legal restrictions related to how the surplus is used. Therefore, it appears this transfer is appropriate.

If you have any questions, please contact me at (213) 974-0301 or Kathy Markarian at (213) 974-0339.

c: Tyler McCauley, Auditor-Controller
Mark Finucane, Director, DHS
Gary Wells, Director, DHS Finance
David Janssen, Chief Administrative Officer